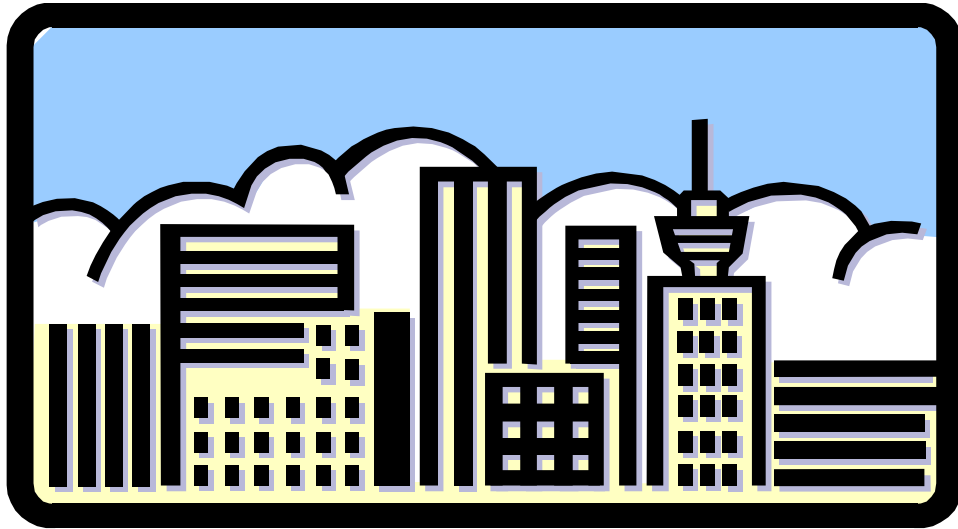


California Department of Food and Agriculture



Fixed Asset Policy and Procedure Manual

Presented By
CDEFA Audit Office

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TABLE OF CONTENTS

	<u>Page Number</u>
New Reporting Requirements for Fixed Assets	
Who is the GASB	4
What is GASB No. 34	4
How Does GASB No. 34 Affect the DAAs	4
Transition Guidance and Sample	
How to Get Started	5
Step 1 -Updating Property Records	5
What if Property Records Do Not Exist	6
Step 2 -Search for Items That Do Not Meet Criteria	9
Step 3 -Reclassify Land Cost	9
Step 4 -Prepare Depreciation Worksheet	10
Step 5 -Calculating Accumulated Depreciation	11
Step 6 -Recapture Any Remaining Depreciation Expense	12
Step 7 -Summarizing Transition	12
Fixed Asset Record Keeping	
Recording Fixed Assets	15
Purchases	15
Projects	16
Disposing Fixed Assets	18
Acquisition/Disposal Summary	19
Fixed Asset Listing	19
Calculating Depreciation Expense	20
Special Transactions	
Trade-Ins	21
Donated Assets	21
Self-Constructed Assets	21
Leases	21
Subsequent Acquisition Costs	22
Fixed Assets Policies and Procedures	
A. General Statement	23
B. Asset Valuation	24
C. Capitalization Criteria	26
D. Asset Classification	26
E. Depreciation for Long-Term Assets	26
F. Depreciation Method and Rates	26

	<u>Page Number</u>
G. Depreciation Examples	27
H. Retention	28
I. Annual Physical Inventory	28
J. Internal Controls	29
Definitions and Terms	30

NEW REPORTING REQUIREMENTS FOR FIXED ASSETS

Who is the GASB?

The Governmental Accounting Standards Board or (GASB) was organized in 1984 to establish standards of financial accounting and reporting for state and local governmental entities. The Board consists of seven members appointed by the Financial Accounting Foundation (FAF). Therefore, the Board is considered the “city council” of governmental accounting and they have the final authority for establishing *Generally Accepted Accounting Principles* (GAAP) for governmental entities.

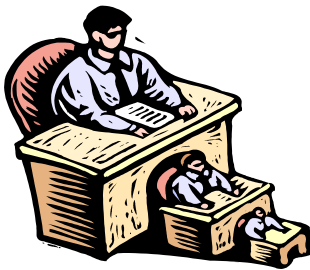


What is GASB No. 34?

In June 1999 the GASB issued a new accounting standard (GASB No. 34) to govern state and local governments. It established a new reporting model for governmental entities and was one of the most comprehensive financial reporting standards in the history of standards setting. The objective of GASB No. 34 was to establish a basic financial reporting model that will result in greater accountability by governments by providing more useful information to a wider range of users. The principle purpose of GASB No. 34 is to “improve the accountability of governments to their citizens by providing better, more accessible information about the condition and costs of fixed assets.”¹

How Does GASB No. 34 Affect District Agricultural Associations?

Traditionally, state and local governmental agencies have used cash accounting methods to report fixed assets. With cash accounting, the capital cost of the fixed assets appears in the financial report during the year in which the cost is incurred.² Among all of the financial reporting changes required by GASB No. 34, state and local governments are required to begin reporting the value of their fixed assets in their annual financial reports on an accrual accounting basis. Accrual accounting methods are generally the standard in the private sector. By bringing public agencies in line with accounting “norms”, GASB 34 has the potential to make agencies’ overall financial condition more comprehensible to the public, investors, creditors, and the agencies themselves.



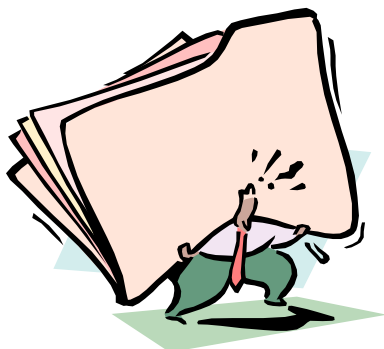
Therefore, since DAAs are considered to be state agencies they should comply with GASB No. 34 and should start reporting their fixed assets using the accrual method. In order to establish a method of depreciation, the DAAs must prepare retroactive adjustments to account for their current fixed assets and must implement new accounting methods for future acquisitions.

¹ Terry K. Patton and Penny S. Wardlow, “Why Infrastructure Reporting?” GASB Action, Vol. 16, No. 5, May, 1999

² Tom Maze, “What’s GASB 34-and why should you care?” posted on www.ctre.iastate.edu/gasb34/

TRANSITION GUIDE TO DEPRECIATION

HOW TO GET STARTED?



It will be necessary to gather all the information available pertaining to the DAA's fixed assets. The property ledgers and general ledgers must be updated and a physical inventory of the fairgrounds might be necessary. The following steps will give the DAA a basic understanding of how to convert their accounting records in order to start depreciating fixed assets. Illustrations are provided to show an example of how to convert from start to finish, and will provide the framework to converting your own records.

Step 1 – Updating Property Records

Initially a DAA must ensure that their property records are up-to-date. This includes the property ledgers for Land, Buildings and Improvements, and Equipment, and the general ledger accounts (#191, Land, #192, Buildings and Improvements, #193, Equipment). **Illustration A** shows an example of the property records (before transition) that may be typically found at a DAA.

Illustration A

Property Ledger Before Transition		
LAND		
Fairgrounds	(40 Acres purchased 1945)	<u>\$100,000</u>
Total		\$100,000
BUILDINGS & IMPROVEMENTS		
Administration Building	Built 1965	\$125,000
Exhibit Building 1	Built 1972	35,000
Barn A	Built 1975	25,000
Barn B	Built 1980	50,000
Exhibit Building 2	Built 1990	20,000
Restrooms	Built 2000	<u>4,000</u>
Total		\$259,000

EQUIPMENT

Truck	Purchased 1978	\$20,000
Tractor	Purchased 1983	17,000
Forklift	Purchased 1985	6,000
Fences (100 Panels @ \$100)	Purchased 1999	10,000
Chairs (100 Chairs @ \$55)	Purchased 2000	5,500
Computers (2 @ \$1,500)	Purchased 2001	<u>3,000</u>
Total		\$61,500
Total of All Fixed Assets		<u>\$420,500</u>

General Ledger Accounts for Property

Account #191, Land	\$100,000
Account #192, Buildings & Improvements	259,000
Account #193, Equipment	<u>61,500</u>
Total	<u>\$420,500</u>
Account #260, Investment in Capital Assets	<u>\$420,500</u>

What if Property Records Do Not Exist?



Sometimes property ledgers and records are not available. It may be necessary to reconstruct some or all of the DAA's property records by using other methods. The DAA can benefit and use information obtained by the following sources:

- Prior Statements of Operations and Audit Reports
- California Construction Authority project information
- Department of General Services' State-Wide Building and Inventory report
- Cost estimates

In most instances, the DAA will need to perform a physical inventory of all the fixed assets on the fairgrounds. The information (i.e. invoices, purchase orders, construction contracts) needed to record the historical cost of all the fixed assets located on the fairgrounds may not be available. For assets for which an actual or an estimated actual

cost is not available, GASBS No. 34 allows a state agency, (DAA), to estimate the cost by deflating the estimated replacement cost through the use of price-level indexes.

As a general rule during the initial transition phase, the DAA should only establish assets and their associated depreciation base that are ten years old or less. This means if the actual cost information is unknown for assets that are older than ten years, then the asset should be reflected with a book value of zero, or fully depreciated. If however, the asset is ten years or older but has adequate documentation to validate historical cost, then the DAA may establish the asset with the appropriate amount of accumulated depreciation.

An example of a source of price index information can be obtained at www.economy.com/tools/calculator/cpi_index.asp. **Illustration B** shows an example of a fixed asset that has been converted to the historical cost by using a price-level index.

Illustration B

Estimated Cost

After performing a physical inventory of the fairgrounds, the DAA identified a building that should be recorded in the property and general ledgers. The DAA consulted with a general contractor and a similar building would cost approximately \$100,000 to construct today. The DAA must estimate the historical cost of the building by “deflating” the replacement cost to the cost when the building was constructed. The only information required is the construction or acquisition date of the fixed asset. In this illustration a price index is used to determine the historical cost. Assuming that the DAA knew that the building was constructed in 1980, the following historical cost calculation can be performed:

Year of valuation	2002	Cost: \$100,000
Year of construction:	1980	Cost: \$ 45,797*

*Current cost is converted to an estimated historical cost by multiplying the current replacement cost by a price index associated with the year of construction.



Once the DAA has obtained historical cost information or has applied alternative methods such as price-indexes, a property ledger should be constructed. The DAA should ensure that all of the fixed assets that are going to be included in the accounting records meet the capitalization criteria established by the Department of Finance and the State Administrative Manual (SAM) Chapter 8600. According to SAM 8600, in order to capitalize a fixed asset it must have a unit acquisition cost of at least \$5,000, a normal useful life of at least one year, and be used to conduct State business.

At the end of this step the assets recorded in the property ledgers (Land, Buildings and Improvements, and Equipment) should equal the amounts recorded in the general ledger

accounts (#191 Land, #192 Buildings and Improvements, and #193 Equipment). If the fixed assets listed in **Illustration A**, are not already recorded in the accounting records, the following journal entry should be recorded:

Account #191, Land	\$100,000	
Account #192, Buildings and Improvements	\$259,000	
Account #193, Equipment	\$ 61,500	
Account #260, Investment in Capital Assets		\$420,500

Furthermore, the amounts recorded in the fixed asset accounts should equal the amount recorded in Account #260, Investment in Capital Assets plus any outstanding property-related liabilities (i.e., capital improvement loan). See **Illustration C** for a typical example of how typical DAA's accounting records would reflect fixed assets.

Illustration C

Balance Sheet Before Transition			
DAA Balance Sheet			
<u>Assets</u>			
Account #113, Cash	\$50,000	(a)	
Account #191, Land	100,000		
Account #192, Buildings and Improvements	259,000		
Account #193, Equipment	<u>61,500</u>		
Book Value	<u>420,500</u>	(b)	
Total Assets	<u>\$470,500</u>	(c)	
<u>Liabilities</u>			
Account #212, Accounts Payable	\$30,000	(d)	
Account #260, Investment in Capital Assets	<u>420,500</u>	(b)=(e)	
Total Liabilities	<u>\$450,500</u>	(f)	
<u>Net Resources</u>			
Account #291, Net Resources Available for Operations	<u>\$20,000</u>	(a)-(d)=(g)	
Total Net Resources	<u>\$20,000</u>	(g)	
Total Liabilities & Net Resources	<u>\$470,500</u>	(f)+(g)	

Step 2 – Search for Items That Do Not Meet Capitalization Criteria

The fair should eliminate any items in the property and/or general ledgers that do not meet the capitalization criteria established by the Department of Finance and as indicated in SAM Section 8600. Referring to **Illustration A**, the items that do not meet the capitalization criteria include the following:

Buildings & Improvements

Restrooms	Built 2000	<u>\$4,000</u>
Total		\$4,000

Equipment

Fences	Purchased 1999	<u>\$10,000*</u>
Chairs	Purchased 2000	<u>\$5,500*</u>
Computers	Purchased 2001	<u>\$3,000</u>
Total		\$18,500

**These items do not meet the capitalization criteria because the amount represents a multiple amount of assets and not one item.*

The entries to update the general ledger are as follows:

Account #260, Investment in Capital Assets	\$4,000	
Account #192, Buildings & Improvements		\$4,000
Account #260, Investment in Capital Assets	\$18,500	
Account #193, Equipment		\$18,500

These fixed assets should also be removed from the fixed assets property ledgers. The result of this step will be that all the fixed assets that remain in the property ledgers exist and are also recorded in the general ledger. These items meet the capitalization criteria, and the totals in the fixed asset accounts match the amounts recorded in Account #260, Investment in Capital Assets.

Step 3 – Reclassify Land Cost to “New” Resource Account

Once the property and general ledgers are up-to-date, the DAA can record the general journal entries to prepare the accounting records for depreciation. Since land will never be depreciated, a journal entry should be made to reclassify the cost of the land from the liability Account #260, Investment in Capital Assets, to Account 291, Net Resources Available for Operations.



In our example (Refer to **Illustration A** for the Land account balance) the entry that should be recorded is as follows:

Account #260, Investment in Capital Assets	\$100,000
Account #291, Net Resources-Available for Operations	\$100,000

Land is an asset that is never depreciated because it typically does not “lose” value over time. After this step is complete, the entire cost of the land will be placed in the Net Resource account. Furthermore, the DAA is now ready to tackle the remaining fixed assets and properly account for them by using the depreciation method.

Step 4 – Prepare an Asset Depreciation Worksheet

Next the fair should prepare an Asset Depreciation Worksheet for Account #192, Buildings and Improvements, and Account #193, Equipment. The DAA will use the information obtained in Step 2, (I.e., purchase dates and costs), in order to perform an accurate worksheet for the property accounts. Refer to **Illustration D** for the worksheet developed for the fixed assets that qualify to be depreciated. **Note:** Some items have been in service longer than the item’s useful life. The result is that the items should be recorded with “full” depreciation and with a book value of zero.



Illustration D

Asset Depreciation Worksheet for (Buildings & Improvements) and (Equipment) As of 12/31/02

Description	Purchase			Depreciation Rate			Accumulated Depreciation			Book Value
	(1) Year	Cost	Useful Life	(a) Cost	(b) Useful Life	(a)/(b)=(c) Rate Per Year	(c) Rate Per Year	(Current Year) -(1)=(d) Years In Service	(c)x(d)=(e) Total Depreciation	(a)-(e) Cost- Accumulated Depreciation
Buildings & Improvements										
Administrative Building	1965	125,000	30 years	125,000	30 years	4,167	4,167	37 years	125,000 *	0
Exhibit Bldg. 1	1972	35,000	30 years	35,000	30 years	1,167	1,167	30 years	35,000 *	0
Barn A	1975	25,000	30 years	25,000	30 years	833	833	27 years	22,491	2,509
Barn B	1980	50,000	30 years	50,000	30 years	1,667	1,667	22 years	36,674	13,326
Exhibit Bldg. 2	1990	20,000	30 years	20,000	30 years	667	667	12 years	8,004	11,996
Equipment										
Truck	1978	20,000	5 years	20,000	5 years	4,000	4,000	14 years	20,000 *	0
Tractor	1983	17,000	5 years	17,000	5 years	3,400	3,400	19 years	17,000 *	0
Forklift	1985	6,000	5 years	6,000	5 years	1,200	1,200	17 years	6,000 *	0

* Exceeds useful life, therefore fully depreciated

Step 5 – Calculating Accumulated Depreciation

The DAA should use the amounts calculated from the depreciation worksheet from Step 4 to determine the amounts that will be recorded as accumulated depreciation (A/D). These contra-asset accounts will offset the fixed asset accounts and will establish the book value of the property accounts. The DAA should create Account #192.1, Accumulated Depreciation-Buildings & Improvements, and Account #193.1, Accumulated Depreciation-Equipment. Refer to **Illustrations E** for the calculated accumulated depreciation that should be recorded for this step of the transition.

Illustration E

Accumulated Depreciation Calculation

BUILDINGS AND IMPROVEMENTS			
<u>Item</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Administration Building	\$125,000	\$125,000	\$0
Exhibit Building 1	35,000	35,000	0
Barn A	25,000	22,491	2,509
Barn B	50,000	36,674	13,326
Exhibit Building 2	<u>20,000</u>	<u>8,004</u>	<u>11,996</u>
Total	\$255,000	\$227,169	\$27,831
EQUIPMENT			
<u>Item</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Truck	\$20,000	\$20,000	\$0
Tractor	17,000	17,000	0
Forklift	<u>6,000</u>	<u>6,000</u>	<u>0</u>
Total	\$43,000	\$43,000	\$0

Once the total accumulated depreciation is calculated for all the assets in each category the following journal entries should be recorded in the accounting records:

Account #260, Investment in Capital Assets	\$227,169	
Account #192.1, A/D-Buildings & Improvements		\$227,169
Account #260, Investment in Capital Assets	\$43,000	
Account #193.1 A/D-Equipment		\$43,000

Step 6 – Recapture any Remaining Depreciation Expense

After **Step 5** is completed, the remaining balance in Account #260, Investment in Capital Assets, should reflect the remaining book value of the fixed assets and ultimately the remaining depreciation expense to be recognized in future years. Since the cost of the asset was initially expensed when purchased, the DAA must recapture those amounts. The remaining book value of the assets can be obtained from the worksheet that was prepared in **Step 5 (Illustration E)**. The following journal entry should be recorded in order to establish the amount of depreciation expense that will be recognized for the existing fixed assets in future periods:

Account #260, Investment in Capital Assets	\$27,831	
Account #291, Net Resources-Available for Operations		\$27,831

Step 7 – Summarize and Verify Transition Journal Entries

The DAA should prepare a summary of the “transition” journal entries and verify that they are correct before recording them in the accounting records. Below is the summary of the journal entries that are required to transition the accounting records to a point where the DAA is able to depreciate the fixed assets.

Account #191, Land	\$100,000	
Account #192, Buildings and Improvements	\$259,000	
Account #193, Equipment	\$61,500	
Account #260, Investment in Capital Assets		\$420,500
Account #260, Investment in Capital Assets	\$4,000	
Account #192, Buildings & Improvements		\$4,000
Account #260, Investment in Capital Assets	\$18,500	
Account #193, Equipment		\$18,500
Account #260, Investment in Capital Assets	\$100,000	
Account #291, Net Resources-Available for Operations		\$100,000
Account #260, Investment in Capital Assets	\$227,169	
Account #192.1, A/D-Buildings & Improvements		\$227,169
Account #260, Investment in Capital Assets	\$43,000	
Account #193.1, A/D-Equipment		\$43,000
Account #260, Investment in Capital Assets	\$27,831	
Account #291, Net Resources-Available for Operations		\$27,831
Sub Totals	<u>\$841,000</u>	<u>\$841,000</u>

Illustration F shows the DAA's accounting records incorporating all of the journal entries and transition steps. Account #260, Investment in Capital Assets, has been eliminated and the Accumulated Depreciation accounts have been established. From this point forward, the DAA is prepared to account for fixed assets by using depreciation.

Illustration F

Balance Sheet After Transition

Balance Sheet

Assets

Account #113, Cash	\$50,000	(a)
Account #191, Land	100,000	
Account #192, Buildings and Improvements	255,000	
Account #192.1, Accumulated Depreciation-Buildings & Improvements	(227,169)	
Account #193, Equipment	43,000	
Account #193.1, Accumulated Depreciation-Equipment	(43,000)	
Book Value of Fixed Assets	<u>127,831</u>	(b)
Total Assets	<u>\$177,831</u>	(c)

Liabilities

Account #212, Accounts Payable	<u>\$30,000</u>	(d)
Total Liabilities	<u>\$30,000</u>	

Net Resources

Account #291, Net Resources Available for Operations	\$20,000	(a)-(d)=(e)
Net Resources-Investment in Capital Assets	<u>127,831</u>	(b)=(f)
Total Net Resources	<u>\$147,831</u>	(e)+(f)=(g)
Total Liabilities & Net Resources	<u>\$177,831</u>	(d)+(g)

FIXED ASSET RECORD KEEPING

Once the accounting records have been updated, the DAA is prepared to depreciate their fixed assets in the future. The method of recording the acquisitions and disposals of fixed



assets significantly changes. Since the DAA will be using a method of depreciating their fixed assets, an expense should not be recognized when an asset is acquired. Furthermore, it is important that detailed documentation is maintained in order to provide information about fixed assets. The information, which should include invoices, purchase orders, and contracts, should be maintained in separate files and stored in a safe location. This information substantiates the fixed assets description and cost.

The DAA has many methods in which it can acquire fixed assets. The following are some example and journal entries that are required for a DAA to properly record the acquisition of fixed assets on the accrual basis. Other examples and details are provided in the **Policies and Procedures** section of this manual.

RECORDING FIXED ASSETS

PURCHASES

USING DAA FUNDS

The DAA purchased a \$20,000 asset with it's own funds

Account #(191,192,193) (Property)	\$20,000	
Cash – Operations		\$20,000

PURCHASED ON CREDIT

The DAA purchased a \$20,000 asset on credit

Account #(191,192,193) (Property)	\$20,000	
Loan Payable		\$20,000

Payment on the Loan

Loan Payable	\$1,000	
Cash – Operations		\$1,000

ASSET BOUGHT FROM LOAN PROCEEDS FROM A BANK

The DAA received a loan to purchase an asset for \$20,000

Cash – Operations	\$20,000	
Loan Payable		\$20,000

Account #(191,192,193) (Property)	\$20,000	
Cash – Operations		\$20,000

Payment on the Loan

Loan Payable	\$1,000	
Cash		\$1,000

ASSET RECEIVED FROM FUNDS PAID BY CCA

The DAA received a \$20,000 asset through funds paid by CCA and loan to be repaid by the DAA:

Account #(191,192,193) (Property)	\$20,000	
Loan Payable		\$20,000

Payment on the Loan

Loan Payable	\$1,000	
Cash		\$1,000

PROJECTS

The DAA can either track the costs of projects through an expense account or a construction in process account. Throughout the year the costs would be recorded in either the expense account or an asset account called Construction in Process-Projects. Each project should have a designated account number in order to keep the different cost separated. If the total cost of the project meets the capitalization criteria, then the amount should be reclassified into the appropriate fixed asset account. If the project does not meet capitalization criteria, then the entire amount should be expensed.

Journal Entries

TRACKING COSTS IN AN EXPENSE ACCOUNT

Capital Project Expense	\$10,000	
Cash		\$10,000

CAPITALIZING THE PROJECT

Account #192, Buildings and Improvements	\$10,000	
Capital Project Expense		\$10,000

TRACKING COSTS IN A CONSTRUCTION IN PROCESS ACCOUNT

CIP-Projects	\$10,000	
Cash		\$10,000

CAPITALIZING THE PROJECT

Account #192, Buildings and Improvements	\$10,000	
CIP-Projects		\$10,000

NOTE: If the DAA is to be reimbursed for any portion or all of the project costs, then revenues should be recorded.

RECORDING A REIMBURSEMENT OF PROJECT COSTS

Cash	\$50,000	
Capital Project Reimbursement Revenue		\$50,000

DISPOSING FIXED ASSETS

The DAA should follow the Department of General Services (DGS) and the guidelines established in the State Administrative Manual (SAM). It is important to track the accumulated depreciation for individual fixed assets because it must be removed from the accounting records when it is disposed. When it comes time to dispose fixed assets, the DAA should refer to their property records and fixed asset listings to obtain the needed information to prepare the proper journal entries. The following examples illustrate different scenarios and the journal entries required to properly remove items from the DAA records.

FIXED ASSET IS FULLY DEPRECIATED

Item: Forklift
Cost: \$25,000
Accumulated Depreciation: \$25,000

Journal Entry

Accumulated Depreciation-Equipment	\$25,000	
Account #193, Equipment		\$25,000

FIXED ASSET NOT FULLY DEPRECIATED

Item: Forklift
Cost: \$25,000
Accumulated Depreciation: \$10,000

Journal Entry

Accumulated Depreciation-Equipment	\$10,000	
*Depreciation Expense Account	\$15,000	
Account #193, Equipment		\$25,000

FIXED ASSET FULLY DEPRECIATED WITH CASH RECEIVED

Item: Forklift
Cost: \$25,000
Accumulated Depreciation: \$25,000
Cash Received: \$5,000

Journal Entry

Accumulated Depreciation-Equipment	\$25,000	
Cash	\$5,000	
Account #193, Equipment		\$25,000
*Gain on Sale of fixed asset		\$5,000

*Closed to Account #291, Net Resources-Operations

ACQUISITION/DISPOSAL SUMMARY

On a yearly basis the DAA should prepare a summary of all the fixed asset acquisition and disposals for the year. This will help the fair ensure that all the fixed assets are properly recorded in the accounting records and that the associated costs and accumulated depreciation for disposals is removed. Example of summary:

Acquisition and Disposal Summary District Agricultural Association for the Calendar Year 2003

<u>Acquisitions</u>	<u>Date</u>	<u>Cost</u>	<u>Depreciation Per Year</u>	<u>ID #</u>
Truck	3/1/03	\$20,000	\$4,000	03001
Forklift	6/1/03	\$15,000	\$3,000	03002

<u>Disposals</u>	<u>Date</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>ID #</u>
Truck	2/25/03	\$10,000	\$10,000	95002
Computers	7/15/03	\$5,000	\$5,000	98001

FIXED ASSET LISTING

The DAA should prepare and maintain a detailed listing of all of their fixed assets. This listing should contain at a minimum the description, date acquired, cost, depreciation calculation, and the assets book value at the end of the year. Additional information such as identification numbers and asset location could also be included. Ultimately, the listing should help calculate the current year depreciation expense and total accumulated depreciation recognized for each asset. The amount of the **current year depreciation** should be added to the **accumulated depreciation** for each asset on a yearly basis until the asset is fully depreciated. Furthermore, any fixed assets acquired during the year should be added and any fixed assets disposed of should be removed accordingly. Below is an example of a DAA's Fixed Asset Listing for the Equipment account.

<u>Equipment Description</u>	<u>Date</u>	<u>Cost</u>	<u>Current Yr. Depreciation</u>	<u>Accumulated Depreciation</u>	<u>BV</u>
Backhoe	Dec-02	\$7,000	\$1,400	\$1,400	\$5,600
Storage Container	May-02	\$9,800	\$1,960	\$1,960	\$7,840
Light Tower	Apr-01	\$14,000	\$2,800	\$5,600	\$8,400
Truck	Mar-00	\$21,000	\$4,200	\$12,600	\$8,400
Mobile Trailer	Sept-99	\$16,000	\$3,200	\$12,800	\$3,200
Riding Mower	Feb-98	<u>\$10,000</u>	<u>\$2,000</u>	<u>\$10,000</u>	<u>\$0</u>
TOTALS		\$77,800	\$15,560	\$44,360	\$33,440

CALCULATING DEPRECIATION EXPENSE

The **Fixed Asset Summary** should reflect the amount of depreciation that needs to be recorded for the year. Pages 27-29 of the Policy and Procedure portion of this manual will give detailed methods on how to calculate the yearly depreciation expense. Once the listing summary is updated, the amount of depreciation expense can be determined. The journal entry necessary to recognize the current year depreciation for the Equipment account is as follows:

*Depreciation Expense (Equipment)	\$15,560	
Accumulated Depreciation (Equipment)		\$15,560

*The Depreciation Expense account should be closed to Account #291, Net Resources-Operations.

SPECIAL TRANSACTIONS

TRADE-INS

The cost of the asset acquired when payment includes both cash and a trade-in is the sum of the cash paid plus the fair market value of the asset traded-in. If the fair market value of the asset being traded-in is not readily determinable, cost may be recorded as the cash paid plus the book value (cost minus accumulated depreciation) of the asset traded-in.

DONATED ASSETS

According to Statement of Financial Accounting Standards (SFAS) No. 116 “Accounting for Contributions Received and Contributions Made” is:

“An unconditional transfer of cash or other asset to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner.”

The DAA must recognize both unrestricted and restricted contributions, at fair market value, as revenues in the period received. Contributed depreciable assets are depreciated on the basis of fair market value.

The DAA received an asset with a fair market value of \$20,000 from a local organization

Account #(191,192,193) (Property)	\$20,000	
Donated Revenue Account		\$20,000

SELF-CONSTRUCTED ASSETS

All direct costs (including labor) associated with the construction shall be included in establishing a self-constructed asset valuation. If a DAA is unable to specifically identify all direct costs (such as labor costs) an estimate of the direct cost is acceptable, but must be supported by a reasonable methodology.

LEASES

The DAA will be required to prepare a Capital Lease worksheet to determine if any leased equipment should be capitalized. Since accounting for capital leases is complex, the DAA can contact the CDFA’s Audit Office for assistance.

SUBSEQUENT ACQUISITION COSTS

After fixed assets are acquired and made ready for use, additional costs are incurred that range from ordinary repair costs to significant additions. Cost incurred to achieve a greater future benefit should be capitalized, whereas expenditures that simply maintain a given level of services should be expensed. These subsequent costs should still meet the capitalization criteria in order to be capitalized in the fixed asset system.

REPLACEMENT OF ROOF COSTING \$20,000

Account #192, Buildings & Improvements	\$20,000	
Cash-Operations		\$20,000

For this example, the cost of the roof is capitalized because it extends the life of the building.

PAINTING OF A BUILDING COSTING \$6,000

Maintenance Expense	\$6,000	
Cash-Operations		\$6,000

For this example, the cost of painting the building is expensed because it only maintains the building for its intended use.



FIXED ASSETS POLICIES AND PROCEDURES

A. General Statement:

All assets meeting the definition of a fixed asset shall be considered an inventorial long-term asset and shall be recorded in the District Agricultural Association's (DAA's) asset inventory system. Each fair is responsible to account for all long-term assets. Such assets shall be systematically and accurately recorded; properly classified as **equipment** (office furniture, computers, vehicles, etc), **land** (fairgrounds, land improvements, etc), **buildings and improvements** (building construction, upgrades, etc); and adequately documented in the DAA's asset inventory system. All DAA's shall establish an internal control structure over long-term assets that provide reasonable assurance of effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

B. Asset Valuation:

DAAs shall record long-term assets at historic cost or, if the cost is not readily determined, at estimated historic cost. Cost shall include applicable ancillary costs.

Cost of Land

Items that are included as acquisition costs for land are: purchase price, legal and title fees, appraisal fees, site preparation, including demolition of existing buildings.

In addition, if an improvement is permanent in nature, such as landscaping, then the item is properly chargeable to the land account. Improvements with limited lives, such as driveways, walks, fences, and parking lots, are best recorded separately as land improvements so they can be depreciated over their estimated lives.

Cost of Buildings

The cost of buildings should include all expenditures related directly to their acquisition or construction. These costs include (1) purchase price, (2) direct materials, (3) fees, such as architects and building permits, and (4) interest charges incurred during construction. Financial Accounting Standards Board (FASB) Statement No. 34, "Capitalization of Interest Cost", requires the capitalization of material interest charges incurred when constructing a fixed asset or preparing it for its intended use. All costs incurred, from excavation to completion of the buildings, are generally considered part of the building cost.

Cost of Machinery and Equipment

The cost of machinery and equipment includes the purchase price, freight and handling charges, insurance on the equipment while in transit, cost of special

foundations if required, assembling and installation costs, and costs of conducting trial runs. Costs include all expenditures incurred in acquiring the machinery or equipment and preparing it for use, plus the market value of any trade-ins or exchanges.

Donated Assets and Contributed Capital

According to Statement of Financial Accounting Standards (SFAS) No. 116 “Accounting for Contributions Received and Contributions Made” is:

“An unconditional transfer of cash or other asset to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner.”

The DAA must recognize both unrestricted and restricted contributions, at fair market value, as revenues in the period received. Contributed depreciable assets are depreciated on the basis of fair market value.

SUMMARY OF ASSET VALUATION

1. **Purchased Assets** – The recording of purchased assets shall be made on the basis of actual costs, including all ancillary costs, based on vendor invoice or other supporting documentation. Ancillary costs are the costs necessarily incurred to bring the asset to the condition and location necessary for its intended use.
2. **Donated Assets** – Fixed assets acquired by gift, donation, or payment of a nominal sum not reflective of the asset’s market value shall be assigned cost equal to the fair market value at the time of acquisition.

C. Estimating Asset Cost

According to GASB 34, Par. 18, fixed assets should be reported at historical cost. Sources of acquisition cost include: vendor invoices, canceled checks, check copies, check registers, expenditure journals, construction contracts, purchase contracts, purchase orders, and general ledger accounts.

DAAs are sometimes faced with the task of establishing fixed asset records after many years of operation without records, therefore it is necessary to estimate the cost of their assets. When it is necessary to estimate cost data, the indirect costing method should be used. The two indirect costing methods are the **standard costing method** and the **normal costing method**.

Standard Costing Method

The standard costing method uses an average of original costs of similar assets that were acquired and installed at the time the asset in question was acquired. This information may come from catalogues, price lists, or consultants.

Normal Costing Method

The normal costing method first determines the cost to reproduce the asset at current prices then using published indices, indexes the cost back to the acquisition date.

The extent to which fixed asset costs have been estimated, and the methods of estimation, should be identified and maintained as part of the fixed asset records, and will be disclosed in the notes to financial statements prepared using generally accepted accounting principles. Estimates must have some reasonable authoritative basis. Merely guessing may result in a qualified auditor's opinion.

D. Subsequent Costs to Acquisition

After fixed assets are acquired and made ready for use, additional costs are incurred that range from ordinary repair costs to significant additions. Costs incurred to achieve a greater future benefit should be capitalized, whereas expenditures that simply maintain a given level of services should be capitalized. These subsequent costs should still meet the capitalization criteria in order to be capitalized in the fixed asset system.

Additions

Additions to assets are usually capitalized because a new asset has been created that increases the ability to provide service. When significant changes to the existing structure are made as the result of an addition, a determination should be made whether to capitalize the cost of the changes. If a significant portion of the old structure is torn down, the cost of the demolished portion should be removed from the fixed asset records.

Improvements and Replacements

An improvement is the substitution of a better asset for the one currently used, while a replacement is the substitution of a similar asset for the one being used. If the expenditure increased the future service potential of the asset, it should be capitalized. If the expenditure maintains the existing level of service, it should be expensed as a normal repair.

To capitalize an expenditure as an improvement or replacement, record the new asset and remove the old asset from the fixed asset records.

Repairs

Ordinary repairs are expenditures made to maintain assets in operating condition. Replacement of minor parts, lubricating and adjusting, or equipment, repainting, and cleaning are examples of the type of maintenance charges that occur regularly and are treated as ordinary expenses.

E. Capitalization Criteria:

DAA's are required to record fixed assets, or certain subsequent costs, in the fixed asset system if certain criteria are met:

1. The asset must have a unit acquisition cost of at least \$5,000 (e.g. four identical assets which cost \$3,000 each, for a \$12,000 total, would not meet the requirements),
2. Have a normal useful life of at least one year,
3. Be used to conduct State business.

Assets that do not meet the capitalization requirements should not be recorded as a long-term asset in the DAA's accounting records. Rather the item will be expensed in the year it is acquired.

F. Asset Classification:

Fixed assets should be categorized into the following:

- Land and Land Improvements
- Equipment
- Buildings and Building Improvements

These categories are used to determine the depreciation amounts for the DAA's long-term assets.

G. Depreciation for Long-Term Assets:

The usefulness of most assets, other than land, declines over time and some type of write-down or write-off of cost is needed to indicate that the usefulness of an asset has declined. Therefore, depreciation is a process of cost allocation and not valuation. Factors involved in the computation of the periodic charge for a depreciable asset are as follows:

1. Asset Cost
2. Service Life
3. Residual Value
4. Method of cost allocation (Depreciation Rate)

A separate contra-asset account (Accumulated Depreciation) should be maintained for each class of assets and deducted on the balance sheet directly from the cost of that class. DAA's will be responsible for calculating depreciation amounts and accurately reporting the information in the financial statements

H. Depreciation Method and Rates:

The DAA's will be required to depreciate their long-term assets by using the Straight-Line depreciation method. Under this method a constant amount of

depreciation is recognized over the established useful life of each asset category. The following useful lives should be used for each asset category:

1. Equipment – 5 years
2. Building & Land Improvements – 30 years
3. Buildings – 30 years
4. Infrastructure – 50 years

Depreciation per year is calculated as follows:

Category	Depreciation Per Year Calculation	Support for Depreciation %
Land	None	N/A
Building Improvements and Land Improvements*	Cost x 3.33%	1/useful life=1/30= 3.33%
Buildings	Cost x 3.33%	1/useful life =1/30 =3.33%
Infrastructure	Cost x 2%	1/useful life = 1/50 = 2%
Equipment	Cost x 20%	1/useful life = 1/5 = 20%

*Not all Land Improvements are depreciable; see definition for Land Improvements that are depreciable.

I. Depreciation Examples

For assets held for their entire useful life, depreciation is calculated as follows:

Regardless of what month the asset is placed into service, an entire year of depreciation will be recorded in the first year. A full year of depreciation will also be taken in each year of the asset's useful life.

Example: A truck was purchased for \$15,000 and was placed into service August 17, 2000. Depreciation per year is calculated at \$3,000 per year (\$15,000 x 20%).

Year	Calendar Year	Depreciation Expense	Accumulated Depreciation
1	00	\$3,000	\$3,000
2	01	\$3,000	\$6,000
3	02	\$3,000	\$9,000
4	03	\$3,000	\$12,000
5	04	\$3,000	\$15,000
6 through the disposal year	05 through the disposal year	\$- 0 -	\$15,000*

* Even after the useful life has lapsed, the asset should be kept on the books at cost with accumulated depreciation of \$15,000 until the asset is disposed of. Depreciation expense is only calculated until the asset reaches its useful life. The asset, after all depreciation has been recorded is considered "fully depreciated".

For assets disposed of before their useful life is reached, depreciation is calculated as follows:

Regardless of what month the asset is placed into service, an entire year of depreciation will be recorded in the first year. A full year of depreciation will also be recorded in each year of the asset's useful life, up until the year the asset is disposed. In the asset's disposal year, any remaining book value will

be recorded as depreciation such that the asset's book value is zero. Whenever property is deemed obsolete or is sold, discarded, traded in, stolen, or destroyed (either purposely, razed or dismantled, or accidentally in a fire or flood), a **property survey report** (STD. 152) must be completed. Describe the item, using the data in the asset inventory system, and the reason for disposition; if thefts or criminal acts were involved, include date and police report number. Forward completed reports to F&E for approval; only after approval, adjust entries in both the general ledger and asset inventory system. Retain reports in files.

Example: A printer was purchased for \$10,500 and was placed into service May 2, 2000 and was disposed of in March 2003. Depreciation per year is calculated at \$2,100 (\$10,500 x 20%).

Year	Calendar Year	Depreciation Expense	Accumulated Depreciation
1	00	\$2,100	\$2,100
2	01	\$2,100	\$4,200
3	02	\$2,100	\$6,300
4	03	\$4,200	\$10,500**
5	04	---	---

** Book Value (cost less accumulated depreciation): \$10,500 - \$10,500 = 0

Note: for reporting purposes, it is assumed most assets disposed of before the useful life is reached would result in "a loss on the sale of an asset" transaction. The Department has decided depreciation expense will be charged to write off the asset instead of recording "a loss on the sale of an asset". This approach does not materially affect the reporting on the income statement. If disposing of a building, or large dollar item and are unsure of the materiality effect, contact the Department.

J. Lease Reporting:

The DAA will be required to prepare a Capital Lease worksheet to determine if any leased equipment should be capitalized. Since accounting for capital leases is complex, the DAA can contact the CDFA's Audit Office for assistance.

K. Retention:

For each long-term asset recorded in the DAA's asset inventory system, evidential information such as invoices, contracts, deeds, purchase orders, appraisals and/or method used to estimate costs shall be maintained at the DAA for audit purposes to support the entries recorded. The documentation should be kept in a permanent folder and maintained until the asset is disposed of. If the asset is disposed of during the year, documentation should be maintained until an audit is performed.

L. Annual Physical Inventory:

All DAAs shall take a complete physical inventory of their long-term assets at the end of each year. After the physical inventory has been taken, several steps are necessary to update the fixed asset records:

1. Physical inventory results are entered into the manual or computerized fixed asset system.

2. Calculations and extensions are performed.
3. Differences between the actual status of the fixed assets (determined by the physical inventory) and any pre-existing data in the fixed asset system are reconciled.
4. Reports are produced from the updated information. The reports are reviewed for accuracy and verified.

M. Internal Controls:

All DAAs shall establish an internal control structure over long-term assets that provide reasonable assurance of effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. The major objective of the internal control over long-term assets is accountability.

DAAs should have procedures in place so that assets are adequately safeguarded from loss or theft, that adequate documentation is maintained to support the cost of the assets, proper approvals are used for acquisitions, physical inventories are taken annually, and proper segregation of duties exist. All movable items owned by the DAA are to be numerically identified either with a permanent stamp or with property ID tags.



FIXED ASSETS

DEFINITIONS AND TERMS

<i>Accumulated Depreciation</i>	The total depreciation expense accumulated since the acquisition date of the fixed assets to the current fiscal year.
<i>Ancillary Costs</i>	<p>Costs, in addition to purchase or construction costs, related to placing a fixed asset into its intended state of operation. Normally, ancillary costs are to be included in the capitalized cost of a fixed asset. However, minor ancillary costs, not measurable at the time a fixed asset is recorded in the fair's fixed asset inventory system, may be expensed.</p> <p>Ancillary costs include such items as follows:</p> <ol style="list-style-type: none"> 1. Buildings and Improvements – Professional fees of architects, attorneys, appraisers, financial advisors, etc.; costs of fixtures permanently attached to a building or structure; and other expenditures necessary to place a building or structure into its intended state of operation. 2. Equipment – Transportation charges, installation costs, and any other normal and necessary expenditure required to place the asset into its intended state of operation. 3. Land – Legal and title fees, surveying fees, appraisal and negotiation fees, damage payments, site preparation costs, and costs related to demolition of unwanted structures.
<i>Asset Classification</i>	<p>The systematic arrangement of assets into categories:</p> <ul style="list-style-type: none"> • Buildings and Improvements • Equipment • Land and Infrastructure
<i>Asset Inventory System</i>	<p>A system providing control of and accountability for the fair's inventorial long-term assets; and enabling the fair to monitor the physical condition of those assets; and providing a documented audit trail of transactions.</p> <p>Fair's asset inventory systems are to contain, at a minimum, the following data elements:</p> <ol style="list-style-type: none"> a. Acquisition date – The date the fair takes title to, or assumes responsibility for, a long-term asset. b. Description – A descriptive name of the asset (includes location). c. Cost – The total cost to acquire and place the asset in service (this will be the fair market value at the time

	<p>received for donated assets).</p> <p>d. Disposal date – The date the fair officially surrenders title to the asset.</p> <p>e. Quantity – The physical count of inventorial items such as square footage for buildings, # of acres, etc.</p> <p>f. Documentation – Reference to the documentation supporting the amounts recorded in the asset inventory system.</p>
Book Value	The cost of fixed asset less the accumulated depreciation recorded to date.
Buildings	A fixed asset reflecting the acquisition costs of a permanent structure, excluding land. Not included are furniture, fixtures, or other equipment that are not an integral part of the structure.
Building Improvement	Improvements include not only structures, but also associated items, such as loading docks, heating and air-conditioning systems, and all other property permanently attached to, or an integral part of the structure.
Capital Leases	<p>A lease with contractual terms transferring substantially all benefits and risks inherent in ownership of the property to the fair. One or more of the four following criteria must be met, to qualify as a capital lease:</p> <ol style="list-style-type: none"> 1. By the end of the lease term ownership of the leased property is transferred to the fair; or 2. The lease contains a bargain purchase option; or 3. The lease term is equal to 75 percent or more of the estimated useful life of the leased property; or 4. The present value of the minimum lease payments (at the inception of the lease), is 90 percent or more of the fair market value of the leased property. <p>Items that qualify as a capital lease must be capitalized and depreciated.</p>
Capitalize	To record as a long-term asset. The recorded amount is the cost to acquire the asset plus all costs necessary to get the asset ready for its intended use.
Depreciation	The systematic allocation of the cost of a fixed asset over its intended useful life.
Depreciation Expense	The amount of depreciation allocated for the current fiscal year.
Disposals	Long-term assets that are no longer used by the fair. These assets should be removed from the fair's asset inventory system.
Documentation	Data such as invoices, deeds, contracts, memos, minutes, receiving reports, competitive bids, approved purchase orders, etc. supporting the entries made in a fair's asset inventory system.
Equipment	A durable fixed asset, complete by itself, other than land or buildings and readily identifiable as not being a component of the building in which it normally resides such as office furniture, office equipment, vehicles, etc.

<i>Estimated Historical Cost</i>	An approximate historic cost using some reasonable estimating methodology.
<i>Extraordinary Repairs, Betterments or Improvements</i>	Expenditures increasing future benefits from an existing long-term asset. An assets future benefit has been increased if: <ol style="list-style-type: none"> 1. The estimated useful life of the existing asset has been extended, or 2. The capacity of the existing asset has been substantially improved, or 3. The quality of output from the existing asset has been substantially improved, or 4. Previously assessed operating costs of the existing asset have been substantially reduced.
<i>Fair Market Value</i>	The price actually given in current market dealings or the price a buyer would be willing to pay a willing seller to exchange property.
<i>Fixed Asset</i>	Tangible assets that are durable in nature, which are acquired for use in operations and not intended for resale, which yield service/benefit over a number of years.
<i>Infrastructure</i>	Long-lived assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Infrastructure may include roads, bridges, dams, or similar fixed assets.
<i>Land</i>	Land with the title owned by the fair. All land associated with infrastructure should be classified as Land .
<i>Land Improvements</i>	Fixed assets, not specifically identifiable to an individual building, reflecting the cost of permanent improvements adding value to the land. Improvements that produce permanent benefits – for example fill and grading costs that ready the land for the erection of structures and landscaping are not depreciable. Alternatively, improvements that are considered part of the structure or that deteriorate with use or the passage of time, such as parking lots and fencing, should be considered depreciable.
<i>Real Property</i>	The name used when referring to the following categories in the aggregate: Land, Land Improvements, Buildings, and Building Improvements.
<i>Repairs</i>	Expenditures made to maintain long-term assets in operating condition. Repairs are recorded as expenditures in the accounting period in which they are incurred.
<i>Replacement</i>	Expenditure to acquire a long-term asset to replace all or part of another long-term asset. These expenditures shall be capitalized if the total amount exceeds the established capitalization thresholds.
<i>Useful Life</i>	The length of time something is expected to last for its intended purpose. For depreciation purposes the useful life for Equipment is 5 years; Buildings is 30 years, Building Improvements & Land Improvements is 30 years.